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SUBJECT: INDUSTRY SUPPORT PLANS - CHINA ADDS LOGISTICS, DROPS REAL  
ESTATE

REF: (A) Beijing 151; (B) Beijing 326; (C) Beijing 425; (D) Beijing  
443; (E) Beijing 515

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11. (SBU) SUMMARY. China's State Council announced on February 25  
that the tenth and final industry support plan would focus on  
logistics, not real estate and construction. This is the only plan  
targeting the service sector, and seeks to reform a severely  
fragmented and inefficient industry. Observers note that economic  
planners may save real estate measures for later, should economic  
conditions worsen. China also announced an ambitious USD 14.7  
billion innovation fund to span a range of industries, and promised  
greater transparency on stimulus spending and industry plans through  
the National Development and Reform Commission (NDRC). END  
SUMMARY.

STIMULATE CONSUMPTION, CREATE EMPLOYMENT  
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12. (U) On February 25, the State Council approved the final industry  
support plans for logistics and non-ferrous metals. The  
announcement confirmed a week of press speculation that logistics  
would replace real estate and construction as the final beneficiary  
of government support under the industry support program. The State  
Council stated the choice of the logistics industry was based on its  
"significant impact on employment, promoting domestic production and  
stimulating consumption." NOTE: This the tenth of ten industrial  
support plans announced since January 14. Post has reported on  
plans for steel, autos, textiles, machinery, shipbuilding and  
information technology (reftels). Reporting is forthcoming on  
petro-chemicals, non-ferrous metals, and light industry. END NOTE.

13. (U) According to the State Council announcement, the logistics  
industry support plan will seek to:  
(1) expand logistics market demand by linking it to the development  
of China's industrial and commercial sectors;  
(2) raise the industry's level of service quality;  
(3) accelerate industry consolidation;  
(4) promote logistics development in key industries, such as energy,  
minerals, and autos; and  
(5) strengthen core logistics infrastructure, including industry  
standardization and broader application of information technology.

14. (SBU) The plan identified key areas for projects, including  
multimodal transport and transshipment facilities, logistics  
industrial parks, and emergency logistics. However, no specific  
projects were named nor funding announced. The announcement called  
on local and central government departments to strengthen

cooperation, to improve laws and regulations and to invest in training programs which support the development of the industry. Compared to other announcements, the logistics plan had noticeably few concrete details.

#### CHINA'S LOGISTICS STRATEGY

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15. (SBU) China's industrial support plans to date have focused on core manufacturing industries, many with internationally active firms, which have suffered from the fall in external demand (shipbuilding, steel, textiles, machinery, etc.). These industries were engines of growth, growing faster than GDP. Logistics is the only service industry to receive support, and is not an area where China has been particularly competitive. There is no shortage of third-party logistics (3PL) providers -- over 18,000 by some counts -- but they tend to be locally focused and there are practically no nationwide networks. Service quality is notoriously poor, and can cost two to three times as much as in the U.S. Large Chinese companies must still operate their own logistics departments, and 3PLs have captured only 20 percent of the domestic market. Logistics industry growth has plodded along at roughly the same pace as GDP. Thus, the choice of the logistics industry does indeed appear to be a strategic one, aimed at building a stronger foundation for domestic rather than export-led growth and aimed at creating new employment opportunities.

#### REAL ESTATE AND CONSTRUCTION NOT FORGOTTEN

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16. (SBU) There has been media speculation about why logistics replaced a real estate and construction in the support program.

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Both industries appear to support employment and domestic consumption, and given the backward state of China's logistics industry, a stimulus to the real estate sector would likely impact the real economy sooner. In a March 3 Bloomberg interview Dragonomics Managing Director Arthur Kroeber suggested Chinese economic planners would likely continue to consider measures to stimulate the real estate sector, but wait to implement them if and when the economic crisis becomes more protracted.

#### NEW INNOVATION FUND TO SPAN INDUSTRIES

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17. (SBU) The same State Council meeting approved a RMB 100 billion (USD 14.7 billion) fund from central and local government budgets to promote indigenous innovation over the next two years. Nearly all ten industrial support plans have included some effort to raise the level of industrial innovation, and help industries raise their technical competence. U.S. business representatives in China have expressed concern that such funding could be used to mask government subsidies for research and development, but admitted it is still too early to tell. (NOTE. On February 26 the South China Morning Post had incorrectly reported that this fund would be allocated directly to the logistics and non-ferrous metal industries. END NOTE.)

#### GOVERNMENT PROMISES GREATER TRANSPARENCY

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18. (SBU) The National Reform and Development Commission (NDRC) responded to local calls for greater transparency of China's overall stimulus spending and the industry support plans. On March 1, NDRC Vice-Minister Mu Hong announced that details will hereafter be posted to NDRC's website ([www.ndrc.gov.cn](http://www.ndrc.gov.cn)). NDRC has promised that specifics on the industry support plans will be posted in mid-March, toward the closing of the National People's Congress.

19. (SBU) COMMENT. With little content made public, the significance of the announcement is more in the choice of the logistics industry rather than the measures to support it. Unlike manufacturing, however, simple technology investments will not be enough to raise quality in the service sector. China's service industries are most competitive where there is active foreign participation, which tends to raise the bar for domestic competitors. Per Arthur Kroeber's

comment above, it is quite possible China's policy makers are keeping real estate and construction measures as 'the ace in their pocket' should the downturn get worse. While we welcome the news of greater transparency, we are not holding our breath that the NDRC website will suddenly illuminate China's murky stimulus spending.  
END COMMENT.

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